

No. 8/22/DPbS

Jakarta, October 18, 2006

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES

IN INDONESIA

Subject : Assets Quality Rating for Commercial Banks Conducting
Business Based on Sharia Principles

Following the enforcement of Bank Indonesia Regulation Number 8/21/PBI/2006 dated October 5, 2006 concerning Quality Rating of Assets of Commercial Banks Conducting Business Based on Sharia Principles (State Gazette of the Republic of Indonesia Number 78 of 2006, Supplement to the State Gazette of the Republic of Indonesia Number 4647), it is deemed necessary to enact its implementation provisions in a Bank Indonesia Circular Letter as follows.

I. GENERAL PROVISION

1. In line with an increase in business complexity, it is necessary that Bank shall maintain sustainability, among other things, through the enhancement of Bank's capability and effectiveness in managing credit risk and minimizing potential losses in the provision of funds.
2. Quality rating of provision of funds represents result of assessment on factors influencing customer's condition and performance including customer's business prospect and performance and

capability ...

capability to repay as well. With regard to customer's business which may bring impacts on the living environment and on customer's business activities and financial condition, it is necessary that in assessing the customer's business prospect Bank takes into considerations on the customer's efforts in preserving the living environment.

3. Considering the economic condition and to drive economic growth in various areas in Indonesia, it is necessary to stipulate special treatment which is softer in the rating of provision of funds for customers with business activities located in specific areas.

II. QUALITY OF PROVISION OF FUNDS

1. Financing Quality Rating

- a. Financing quality is based on business prospect and customer's performance and repayment capability with factors referring to Article 9 Bank Indonesia Regulation No. 8/21/PBI/2006 dated October 5, 2006 concerning Quality Rating of Assets of Commercial Banks Conducting Business Based on Sharia Principles.
- b. Criteria of components as referred to in letter a are described in Appendix I of this Bank Indonesia Circular Letter.

2. Efforts in Living Environment Management

- a. Referring to Article 10 paragraph (1) letter e Bank Indonesia Regulation No. 8/21/PBI/2006, one of criteria in the assessment of business prospect is efforts made by a customer to preserve the living environment, especially a large-scale customer with business activities bringing important impacts on the living environment. This is in line with Elucidation to Article 8 Act

Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 which, among others, states that one of issues subject to consideration in providing funds is the result of Analysis on Environmental Impacts (AMDAL) for large-scale and/or high-risk companies.

This requirement of AMDAL is also included in Act Number 23 of 1997 concerning Living Environment Management and Government Regulation Number 27 of 1999 concerning the AMDAL.

- b. AMDAL is an analysis on large and important impacts of a business and/or activity planned on the living environment which is needed in the process of decision making for the conduct of a business and/or activity. An AMDAL result is needed to confirm the viability of a project to be financed from environmental aspect. An activity with important impacts which is held without any AMDAL may bring damaging impacts in the future because an absence of adequate environment management planning by a customer will cause an absence of knowledge of potential impacts emerging from the customer's business activities. This may further bring difficult impacts on the customer's business performance and capability to repay the financing. In addition, based on Government Regulation Number 27 of 1999, AMDAL represents one of requirements to be met in obtaining a business and/or activity license.
- c. Types of business and/or activity plans subject to the AMDAL are stipulated in Minister of Living Environment Decree Number 17 of 2001 concerning Types of Business or Activity Subject to AMDAL. This decree may be reviewed on a regular basis, usually in a period of 5 (five) years. Issues relating to AMDAL for

activities ...

activities subject to AMDAL are presented in the website of the Ministry of Living Environment under this address : www.menlh.go.id/amdalnet.

- d. Besides in the beginning of the business activity, a customer is also required to make efforts to manage the living environment continuously. In this regard, the Ministry of Living Environment has introduced a program of Assessment on Company Performance in Living Environment Management (PROPER). Companies participating in the PROPER are :
 - 1) companies which bring important impacts on the living environment;
 - 2) companies which bring heavy pollution or environmental damaging impacts;
 - 3) companies which pollute and damage and/or are potential to pollute and damage the environment;
 - 4) public companies listed in the capital market either in Indonesia or abroad; or
 - 5) export oriented companies.
- e. PROPER qualities shall be classified into five ratings, namely gold, green, blue, red, and black. These results of rating are announced regularly to the public and may be accessed in the website of the Ministry of Living Environment under this address: www.menlh.go.id.
- f. Each PROPER rating means as follows.
 - 1) gold, for business and/or activity which has succeeded in making the efforts to control pollution and/or living environmental damage and/or conducting clean production and has achieved extremely satisfactory results;
 - 2) green, for business and/or activity which has succeeded in

making ...

making the efforts to control pollution and/or living environmental damage and has achieved better results than required in applicable laws and regulations;

- 3) blue, for business and/or activity which has succeeded in making the efforts to control pollution and/or living environmental damage and has achieved results in accordance with minimum requirements as stipulated in applicable laws and regulations;
- 4) red, for business and/or activity which has succeeded in making the efforts to control pollution and/or living environmental damage but has not succeeded in achieving minimum requirements as stipulated in applicable laws and regulations;
- 5) black, for business and/or activity which has not made the efforts to control pollution and/or living environmental damage and may bring pollution and/or living environmental damage.

III. SECURITIES QUALITY

Quality rating on securities other than Sharia Money Market Securities shall be generally based on rating factors owned by securities or assets underlying those securities, payment requirements in the exact term and amount as agreed, and the maturity of the concerned sharia securities. Securities assets qualities classified Current and Substandard shall have at least, among other things, an investment rating.

Investment ratings are included in Appendix II of this Bank Indonesia Circular Letter.

Quality rating for Indonesian company securities traded in major stock markets abroad (at least of the same level as Indonesian stock

market) ...

market) shall be the rating for securities traded in those stock markets or the rating on securities of the relatively of the kind issued by the concerned company which are traded in Indonesian stock market or based on stipulation on quality rating for provision of funds if the concerned company does not issue securities in Indonesia.

For securities which based on characteristics are not actively traded in the stock market and do not have rating, such as medium term note and export draft, the quality rating shall be based on stipulations concerning quality of placement in the event that the party required to settle is another Bank, or based on relevant stipulations concerning quality of provision of funds if the party required to settle is a non-bank.

IV. QUALITY OF PROVISION OF FUNDS IN SPECIFIC AREAS

Based on Article 27 Bank Indonesia Regulation No. 8/21/PBI/2006 and in order to enhance intermediary function and to drive economic growth of specific areas as well, a special treatment in the quality rating on provision of funds is provided for customers with business activities located in specific areas. The special treatment in the form of relief shall be realized when Bank conducts quality rating which shall be based only on repayment capability, namely promptness of principal and margin/profit share/fee payments.

1. The provision of funds treated specially is a provision of funds (including issuance of guarantee or opening of L/C) amounting up to Rp1,000,000,000.00 (one billion rupiah) for investment and/or working capital to customers with business activities located in the following areas.

- a. Province of Maluku;
- b. Province of North Maluku;

c. Province of ...

- c. Province of Papua;
 - d. Province of West Irian Jaya; and
 - e. Poso Regency in Province of Central Sulawesi.
2. Quality rating for provision of funds in certain amount extended to customers with business activities located in Province of Nanggroe Aceh Darussalam, Nias Regency, and Province of Yogyakarta Special Territory and its surrounding areas in Province of Central Jawa, including issues relating to restructuring of provision of funds, shall be stipulated in specific provisions.

V. CONCLUDING PROVISIONS

Provisions in this Bank Indonesia Circular Letter shall come into force since January 1, 2007.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

MIRANDA S. GOELTOM
Senior Deputy Governor